Tacoma Narrows Bridge

Toll Rate Setting

Understanding Funding Requirements for Fiscal Year 2014

Revised December 2012

Washington State Department of Transportation

Overview

In 1998 voters approved construction of a second **Tacoma Narrows Bridge** (TNB) crossing the Tacoma Narrows between Tacoma and the Kitsap Peninsula to alleviate daily traffic backups and accommodate projected growth in population and employment. Construction began in 2002, and the new bridge opened in 2007. Construction was funded with bond financing to be repaid using tolls over 30+ years.

The TNB was financed with an escalating debt repayment plan. This means debt payments are low in the early years (starting in 2007) and rise over time. For instance, from 2007 to 2009, the state paid $41 million in debt payments. In the current 2011-2013 budget, debt payments for the bridge are nearly $90 million. By 2015-2017, the payments will be approximately $133 million, and will ultimately reach $174 million in 2027-2029. This repayment schedule means that tolls must increase over time to pay the state's fiscal obligations.

The State Transportation Commission is legally required to set toll rates for the Tacoma Narrows Bridge (TNB) in an amount that is sufficient to pay the debt for the bridge, as well as to pay costs related to maintenance, preservation and operations of the bridge. The Commission begins each toll-setting process with the advice of the Governor's appointed TNB Citizen Advisory Committee (CAC) and includes public input. In addition to this, during the toll-setting process the Commission evaluates bridge expenses, trends in traffic volumes, the schedule for bond payments, and ending balances in the toll revenue account. Each of these elements is considered prior to making a toll rate decision.

Purpose of this document

The TNB Financial Plan is used to determine whether additional revenues are needed to meet funding targets that toll revenues must cover each year, and if so, how much needs to be raised. The financial plan shows the revenue coming into and the expenses going out of the TNB Account. WSDOT prepared this document to explain the revenue and expense estimates and make the financial plan easy to understand.

A draft of this document was prepared for the November 2012 CAC meeting. This updated document includes the November revenue forecast, answers to questions raised by the CAC, and updated information.

Contents

Figures

Acronyms

AR .... Accounts Receivable
CAC .... Citizen Advisory Committee
CSC .... Customer Service Center (statewide toll back office)
ETCC .... Electronic Transaction Consultants Corporation (tolling vendor)
FTE .... Full-time Equivalent
FY .... Fiscal Year (July to June)
GTG .... *Good To Go!*
IPD .... Implicit Price Deflator (measure of inflation)
MVA .... Motor Vehicle Account
NOCP .... Notice of Civil Penalty
NOI .... Notice of Infraction
OFM .... Office of Fiscal Management
OST .... Office of the State Treasurer
PBM .... Pay By Mail
SMB .... Sufficient Minimum Balance (see page 8)
TNB .... Tacoma Narrows Bridge
WAC .... Washington Administrative Code
WSDOT .... Washington State Department of Transportation
WSTC or Commission .... Washington State Transportation Commission

Introduction to Tacoma Narrows Bridge Rate-setting

What expenses must be covered by tolls?

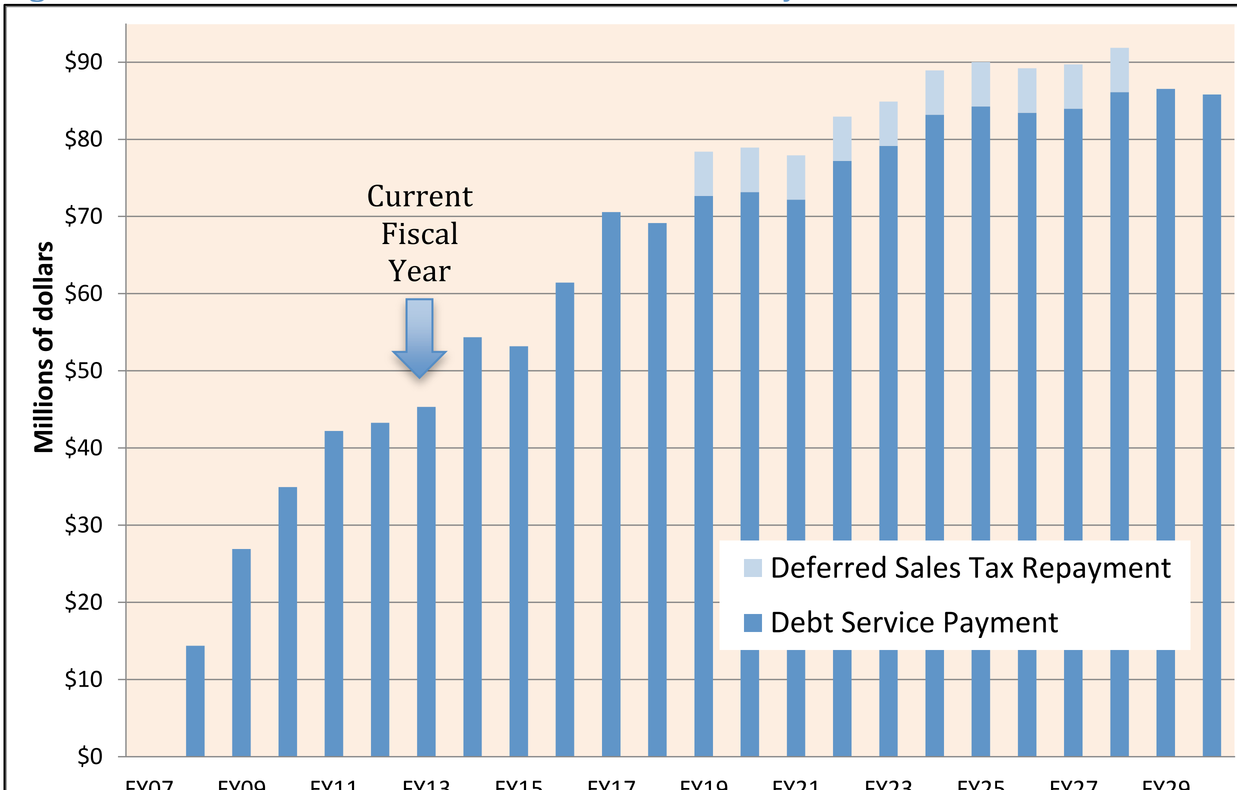
By law, and also as conditions of the bond sales used to construct the new eastbound Tacoma Narrows Bridge, tolls must cover costs to:

- make debt service payments on construction bonds,
- operate and maintain the new bridge (but not the old one),
- operate and maintain toll collection,
- make necessary repairs and restoration to the new bridge, and
- purchase insurance in case something happens that takes the bridge out of service.

Why do the toll rates need to change?

The finance plan that funded TNB construction included ten separate bonds that required low debt service in early years after construction that increase relatively rapidly for the first ten years, and less rapidly after that. That plan assumed average toll rates that began at $3, increasing by $1 every three years until reaching a maximum of $6. To date, due to reduced costs and better than projected traffic in the early years, toll rates have remained lower than originally projected, as shown in **Figure 1.**

Figure 1: TNB Debt Service and Deferred Sales Tax Payments



2002 plan toll rate	$3.00		$4.00		$5.00	$6.00
Actual toll rate	*Good to Go!*	$1.75	$2.75	$2.75	$4.00	
	Cash	$3.00	$4.00	$4.00	$5.00	
	Pay By Mail	(N/A)	(N/A)	$5.50	$6.00	

How are toll rates set?

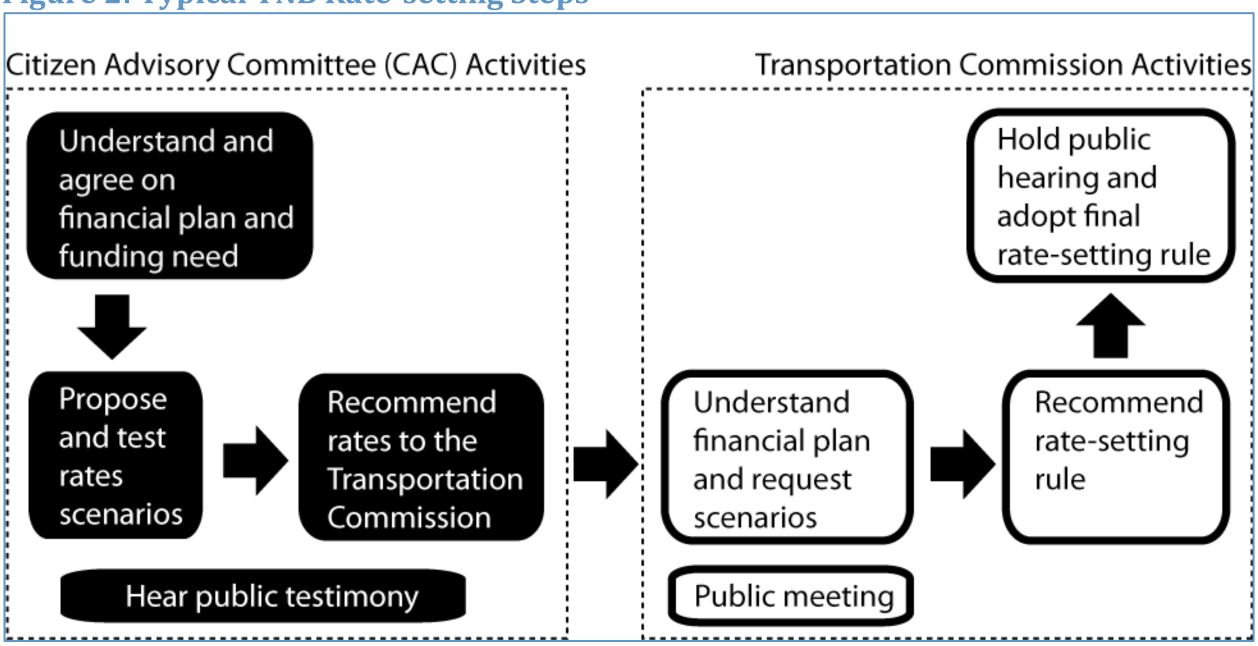
The **Washington State Transportation Commission** (Commission) is charged with setting tolls for all state toll facilities in Washington. For TNB rate setting, the **TNB Citizen's Advisory Committee** (CAC) was appointed by the governor starting in 2006 to provide recommendations on toll rates to the Commission. This nine-member committee is composed of permanent residents of the bridge area, and is required by law to make toll rate recommendations to the Commission. The CAC has generally approached its work in three steps:

- Understanding the financial plan
- Requesting traffic and revenue forecasts
- Voting to recommend proposed rates

After receipt of the CAC rate proposal, the Commission makes a formal rate recommendation by filing a proposed rule for inclusion in the **Washington Administrative Code** (WAC) and then holds public input meetings on the proposed rates.

After the proposed rule is published in the Washington State Register and a waiting period passes, the Commission holds a formal rate hearing, after which a final rate-setting action can be taken and a final rule filed. New rates can take effect 31 days later. The general rate-setting process steps are pictured in **Figure 2.**

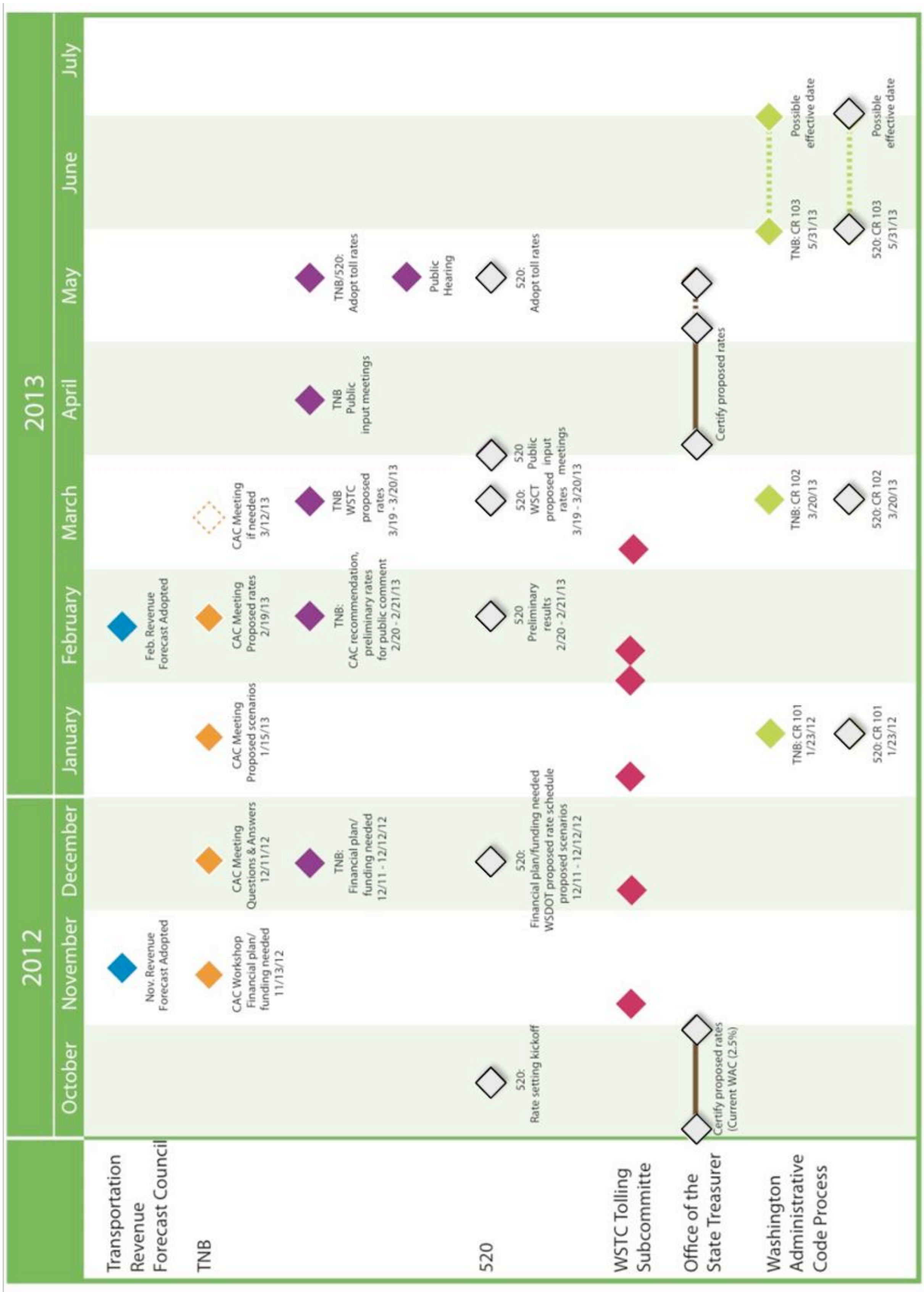
Figure 2: Typical TNB Rate-setting Steps



What is the rate setting schedule?

Figure 3 shows the process planned to set rates to take effect in **fiscal year** (FY) 14, which starts in July of 2013. The Transportation Commission's schedule needs to accommodate rate-setting for both TNB and the SR 520 Evergreen Point Bridge. The colored activities are related to TNB rate setting.

Figure 3: Schedule for Setting FY 14 Rates



How does the Commission decide what revenue is needed?

Once the Commission receives the CAC recommendation they follow a similar process to propose a new rate-setting rule, asking for additional scenarios if desired and hearing public testimony before reaching a decision.

Why is there a sufficient minimum balance requirement?

The Commission has established a policy that the revenue collected within a fiscal year exceed costs by 12.5% to ensure costs will be met even if toll collections are less than projected. The extra amount raised isn't spent or moved to a reserve account; it's retained in the Tacoma Narrows Bridge account and rolls over to the next year.

In practice, the Commission sets tolls to achieve a **Sufficient Minimum Balance** (SMB) in the TNB Account (Fund 511) at the end of the fiscal year that's greater than or equal to 12.5% of projected annual expenses for the year. The Financial Plan is used to show how much revenue from toll rates is needed to meet the sufficient minimum balance test.

Introduction to the Financial Plan

The financial plan summary is shown in **Figure 4** and includes revenues and expenses for each fiscal year (July through June), and the fund balance that carries forward from one year to the next. This year a summary of the Financial Plan has been prepared for rate-setting to focus the years and line items pertinent to understand the funding needs for fiscal years 14 and 15.

The rows show different revenue or expense categories:

- The financial plan is broken into two sections, one for operating and maintenance, and the other for capital. Within each of those sections it is broken again between revenues (sources) and expenses (uses). *Note that debt service is shown as a reduction to revenue,* consistent with all state financial plans.
- The ending balance for each fiscal year is shown at the bottom, and that same balance is shown as the initial balance for the following year.
- The bottom two lines show the extra 12.5% that must be received each year in excess of expenses by Transportation Commission policy, and the amount of additional funding needed to achieve the sufficient minimum balance.

Dollar amounts shown for FY 08 through FY 12 are the actual revenue received and expenditures made during those years. Current and future revenues are consistent with the Transportation Forecast Council's November 2012 revenue forecast. Revenue projections in **Figure 9** are based on the previous forecasts. FY 13 expenses are consistent with the 2012 Supplemental Transportation Budget, adjusted for amounts in unallotted status. Expenditures for FY 14 and 15 are consistent with WSDOT's proposed budgeted allotments for the upcoming FY 13-15 biennium. These amounts may be adjusted once the Legislature passes the 2013 Transportation Budget.

Figure 4: Financial Plan Summary

Tacoma Narrows Toll Bridge Account (511) — Annual Financial Plan

Draft Financial Plan - Updated on December 11, 2012
Revenue estimate is based on adopted September 2012 Revenue Forecast
Expenditures for FY12 represent actual experience and FY13 are based on agency allotment plan
(dollars in thousands)

	Actuals						Forecast	
Fiscal Year	2008	2009	2010	2011	2012	2013	2014	2015
Toll Rate (Pre-Pay)	$ 1.75	$ 2.75	$ 2.75	$ 2.75	$ 2.75	*$ 4.00*	*$ 4.00*	*$ 4.00*
Toll Rate (Cash)	$ 3.00	$ 4.00	$ 4.00	$ 4.00	$ 4.00	*$ 5.00*	*$ 5.00*	*$ 5.00*
Toll Rate (Pay-By-Mail)					$ 5.50	*$ 6.00*	*$ 6.00*	*$ 6.00*
Beginning Unreserved Fund Balance	17,753	9,418	16,290	16,413	8,124	*3,912*	*10,340*	*7,467*
Operations and Maintenance								
Sources of Funds 1								
Interest Earnings from Tacoma Narrows Account (511) 2	232	281	341	145	51	*154*	*112*	*84*
Interest Earnings from Toll Collection Account (495) 2	3	115	71	33	21	*29*	*29*	*30*
Toll Revenue	29,960	44,323	45,353	44,049	44,103	*61,198*	*61,843*	*63,737*
Transponder Sales Revenue	760	608	629	644	353	*354*	*355*	*365*
Violations	467	598	594	489	131	*22*	-	-
Civil Penalties Gross Revenue	-	-	-	-	469	*698*	*708*	*730*
Civil Penalties (Contractual Damages)	-	-	-	-	16	-	-	-
Transfers from/(to) Other Accounts 3	-	(10)	-	-	-	*(284)*	*(708)*	*(730)*
Fees 4	1	56	104	76	166	*373*	*373*	*385*
Contractual Damages13	-	-	-	-	1,462	*400*	*291*	*133*
Miscellaneous Revenue 5	279	0	16	768	205	*2*	*2*	*2*
Inventory Reserve 6	(234)	380	(190)	387	-	-	-	-
Debt Service Payment & Withholding 7	(14,689)	(26,915)	(34,903)	(44,955)	(40,443)	*(45,836)*	*(54,118)*	*(54,735)*
Total Sources of Funds for Operations and Maintenance	16,777	19,435	12,013	1,636	6,534	*17,111*	*8,887*	*10,002*
Uses of Funds 8								
Oversight & Administration of Toll Operations 9	2,180	2,278	2,301	2,260	2,336	*2,815*	*2,922*	*3,116*
Adjudication Process	-	-	-	-	401	*497*	*518*	*520*
Toll Operator Contract	9,852	6,932	6,781	5,621	4,984	*5,459*	*5,183*	*5,231*
Insurance	2,680	1,339	1,602	1,463	1,486	*1,600*	*1,750*	*1,750*
Washington State Patrol	572	315	271	209	15	-	-	-
Maintenance of New Bridge	103	268	229	211	187	*240*	*270*	*305*
Preservation of New Bridge, Roadway & Toll Systems	-	-	-	113	-	-	-	-
Intangible Asset (Software, etc.)	-	-	-	-	1,346	-	-	-
Compensation Adjustment 12	-	-	-	-	(28)	*(39)*	-	-
Contingency	-	-	-	-	-	-	1,009	893
Total Uses of Funds for Operations and Maintenance	15,387	11,132	11,184	9,876	10,726	*10,573*	*11,653*	*11,815*
Current Year Balance for Ops. And Maint. (Sources - Uses)	1,390	8,302	829	(8,240)	(4,192)	*6,537*	*(2,766)*	*(1,813)*
Cumulative Balance for Ops. And Maint.	3,321	11,624	12,453	4,213	21	*6,558*	*3,792*	*1,979*
Capital Improvements								
Sources of Funds								
Interest Earnings 2	824	400	-	-	-	-	-	-
Bond Net Proceeds 10	12,716	-	-	-	-	-	-	-
Capitalized Interest (Debt Service)	-	-	-	-	-	-	-	-
Toll Revenue Used for Financing Deferred Sales Tax	-	-	-	-	-	-	-	-
Charges for Services	-	-	-	-	-	-	-	-
Transfers from Motor Vehicle Account (MVA)	-	-	-	-	-	-	-	-
Total Sources of Funds for Capital	13,540	400	-	-	-	-	-	-
Uses of Funds								
Capital Expenditures 11	23,319	2,230	707	50	-	-	-	-
Preservation of New Bridge, Roadway & Toll Systems	-	-	-	-	20	*109*	*107*	*2,902*
Deferred Sales Tax	-	-	-	-	-	-	-	-
Prior Period Recoveries	(54)	(400)	-	(1)	-	-	-	-
Total Uses of Funds for Capital	23,266	1,830	707	49	20	*109*	*107*	*2,902*
Current Year Balance for Capital (Sources - Uses)	(9,726)	(1,430)	(707)	(49)	(20)	*(109)*	*(107)*	*(2,902)*
Cumulative Balance for Capital Improvements	6,097	4,667	3,960	3,911	3,891	*3,782*	*3,675*	*774*
Ending Unreserved Fund Balance	9,418	16,290	16,413	8,124	3,912	*10,340*	*7,467*	*2,753*
Days of Expenses Covered by Ending Fund Balance			128	57	26	*67*	*41*	*15*
Sufficient Fund Balance = Ending Fund Balance / (Total Uses of Fund + Debt Service Payme			35.1%	15.6%	7.2%	*18.5%*	*11.3%*	*4.1%*
12.5% Sufficient Minimum Balance			5,852	6,516	6,752	*7,001*	*8,263*	*8,486*
Additional Fund Balance Needed to Reach 12.5% Sufficient Minimum Balance			-	-	2,840	*(3,338)*	*795*	*5,734*

Financial Plan Summary Notes

[1] For GAAP purposes, Interest Earnings, Donations, Debt Service and Transfers displayed as Operations Sources of Funds are considered to be Nonoperating Activities.

[2] Interest income displayed is net of the cost of investment activities. The interest earning estimates from TNB account in FY 14 to FY 17 assume the annual ending fund balance will reach the required 12.5% Sufficient Minimum Balance.

[3] As required by RCW 46.63.160 (9), through June 30, 2013, TNB civil penalty revenue that are in excess of amounts necessary to support TNB toll adjudication process must be allocated toward repayment of the $5.288 million MVA loan.

[4] Includes NSF check, Customer Service Center administration fees, and the reprocessing fee associated with the second PBM statement.

[5] Includes contractor liquidated damages for late project delivery, cash over, prior period recoveries, $102,000 of private donations for grand opening in FY 08, $2,350 down-payment for the $21,501 sale of surplus right of way in FY 10, and the $164 monthly payment for the same real estate sale starting from FY 11 for 19 years. The $10,000 in FY 09 reflects a transfer to the Health Care Authority Administration Account for the state insurance accounting system supporting FTEs assigned to the TNB. In FY 11, $763,297 was paid by toll vendor as the contractual damages. Among the $763,297, $11,556 was from TransCore and $396,000 was from ETCC due to vendor system issues which caused a decrease in toll revenue; another $355,741 was paid by ETCC to repay related TNB costs.

[6] Inventory Reserve represents the change in consumable inventory of transponders from year to year. For governmental fund financial reporting, inventory balances are recorded as a reservation of fund balance so they are not spendable resources. In 2010, a new law (Chapter 249, Laws of 2010, Sec. 8(3)) authorizes the use of the Toll Collection Account (495) to record transponder inventory upon certification of the new statewide tolling operations center and photo toll system are fully operational. This certification occurred in December 2011.

[7] Debt Service Payment represents Principal and Interest payments paid out of the Highway Bond Retirement Account for bonds sold for TNB Account construction costs. Debt Service Withholding represents the amount transferred in a given fiscal year from the TNB Account, more or less than the Debt Service Payment. RCW 47.10.847 requires the State Treasurer to withhold amounts as required by the bond proceedings into the Highway Bond Retirement Account, which is on a monthly basis prior the due dates of the debt service payment.

[8] Uses of Funds for Operations in FY 13 reflect agency proposed 2011-13 allotment plan. Operation and maintenance uses except for insurance, maintenance, preservation is inflated from FY 14 to FY 17 using half the rate of IPD. Maintenance and preservation are from WSDOT's plan updated as part of the department's 2013-15 budget submittal.

[9] Oversight & Admin of Toll Operations includes Credit Card and Bank Fees, Transponder COGS, Salaries and Benefits, Personal Service Contracts, and Capital Outlays for use in TNB Operations. Forecasted Oversight & Admin of Toll Operations show revised numbers that have been changed based on updated assumptions to transponder costs. These figures do not align with the 13-15 budget request for Tacoma Narrows Bridge (Decision Package PLBB).

[10] The $677.78m bond net proceeds for Tacoma Narrows Bridge include $681.17m PAR amount, $3.03m premium, and $6.42m underwriter discount/cost of issuance.

[11] In addition to the $718 million capital expenditures from TNB account, $11 million was spent on the TNB capital improvement from MVA account in the 1999-2001 and 2001-2003 Biennia prior to the creation of Tacoma Narrows Toll Bridge Account.

[12] The compensation adjustment is based on the assumption of a 3% salary reduction included in the 2011-13 general fund operations budget.

[13] WSDOT and the Electronic Transaction Consultants Corporation (ETCC) entered into a Settlement Agreement to settle certain claims associated with a delay in the start of establishing and operating a Statewide Tolling System for Washington State, and the commencement of tolling of State Route 520. These claims impacted multiple WSDOT toll facilities including the Tacoma Narrows Bridge. The agreement modifies the original December 22, 2009 contract between the two parties along with its subsequent changes orders. The Settlement Agreement was executed June 30, 2012. The total settlement value attributable for all toll facilities was:

- $2.4 million in operational payment reductions ($400,000 per year x 6 years). This will result in $1.48M in revenue for TNB over the next 6 years.
- $4.0 million royalty free, non-exclusive, perpetual, irrevocable and non-transferable license to use the ETCC RITE system source code and related software and background documents necessary to operate the WSDOT Statewide Tolling Customer Service Center. The value of this intellectual property was established by an independent consultant. To properly account for the RITE System License and report this asset in the financial records, accounting entries (expenses offset by revenue) were processed that impacted all toll facilities. For TNB, this resulted in a $1.33M expense in FY 12 which was offset by the same amount of revenue in the same fiscal period.

[14] Contingency includes 2 position vacancies (FY 14), allowance for step increase to vendor payments, costs for sudden vendor service separation, and variable transponder purchase capability.

Summary of Financial Plan Changes

Several changes have been made to both the substance and presentation of the financial plan since last year's rate-setting process. Following is an overview, with more detail on individual line items provided in the following sections.

What are changes to the format?

- Only six years are shown to make it easier to read
- Unused lines are deleted, and some lines are combined
- New lines show the effect of vendor settlements

What are key changes in the plan itself?

- Incorporated the Transportation Revenue Forecast Council's November 2012 revenue forecast
- Updated FY 12 expenses to reflect actuals and revised the FY 13 budget
- Updated the 2014-2015 budgets
- Incorporated new debt service payments from refunding that occurred in September 2012
- Incorporated the effect of settlement negotiations with a toll vendor
- Forecasted toll revenues are reduced based on revised Pay By Mail use projections
- Reduced civil penalty and adjudication revenue and expense projections
- Moved facility restoration and repair to the capital expense section, expenses will draw down a capital balance that has been carried since project construction.

Summary of Financial Plan Findings for FY 2014 Rate-setting

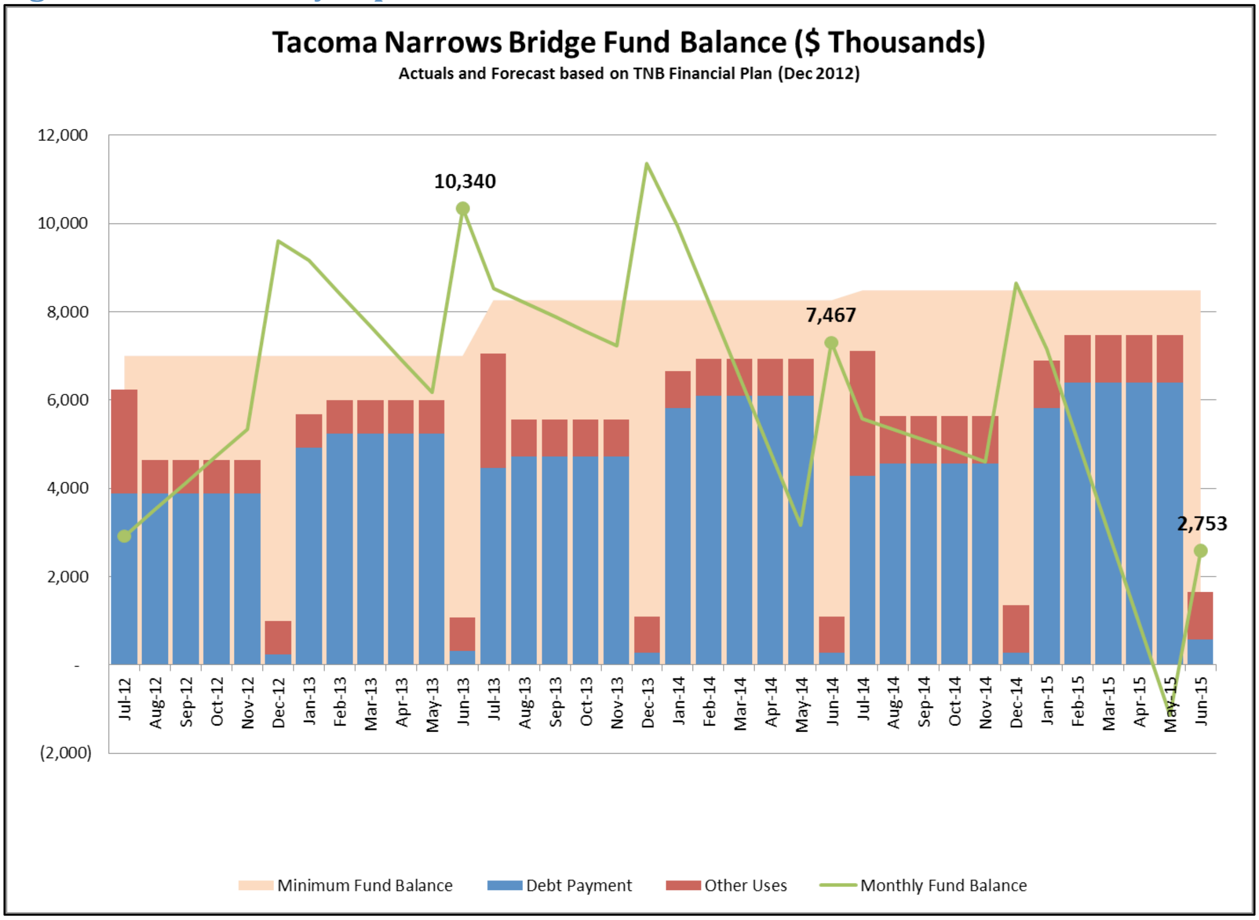
The Financial Plan shows that an additional $795K in revenue is needed to meet the sufficient minimum balance requirement for FY 14 if projections are correct.

- This is roughly equivalent to approximately 6 cents/transaction (using a rough rule of thumb that about 14M transactions occur annually).
- Last year's rate increase put TNB on a rising revenue course, so if all expenses stayed constant, the fund balance would rise. The ending balance increased from a low of $3.7M in 2012 to $10.3M in 2013, a rise of $6.6M, leaving the final balance $3.3M higher than the SMB. That $6.6M increase would recur in 2014 if all expenses were held constant, and the 2014 ending balance would be $16.5M - but instead an $8.3M increase in debt service and other cost increases reduce the end balance to $7.467M.

The financial plan does not show revenues and expenses at a monthly level. The fund balance varies considerably over a year's time because bond withholdings (transfers to a statewide bond payment account) and insurance payments are not even each month. It's possible that the fund balance in an individual month can be well below the sufficient minimum balance measured at the end of the fiscal year.

Figure 5 shows the monthly variance of the account balance over the life of the financial plan, which assumes current toll rates remain constant. The green line shows the projected fund balance, while bars show the expected expenses for each month. Blue bars are for debt payment, and red bars are for other expenses from the TNB fund. Annual insurance payments made in July each year, result in higher value for Other Expenses.

Figure 5: TNB Monthly Expenses and Fund Balance



Revenues

How are interest earnings calculated?

Actual interest earnings are calculated by the Office of the State Treasurer using the average daily balance in the account each month. Projected interest earnings are calculated by estimating the fund balance in the TNB account (Fund 511), and TNB's share of the Toll Collection Account (Fund 495), where toll revenues are first deposited before being assigned to individual toll facility accounts.

How have toll revenue projections changed?

For 2013 the biggest change is a reduction of Pay By Mail revenue projections, based on recognition that fewer customers than expected are choosing the Pay By Mail option (see discussion on page 14). In addition for 2014, lower revenues are estimated due to continued economic weakness and its impact on traffic.

How are toll revenues forecasted?

WSDOT contracts with a traffic and revenue consultant (CDM Smith) to prepare quarterly traffic and revenue forecasts. The same consultant prepares toll scenario forecasts for the CAC to predict how a change in toll rates will affect both traffic levels and toll revenues. CDM Smith developed the original investment-grade traffic and revenue forecast that bond agencies relied on to finance the new bridge. That forecast was elaborate and involved a full travel forecasting model. Now that there is a history of tolling in the SR 16 corridor, quarterly updates use a simpler and more accurate procedure (at least in the near-term) adjusts current trend data based on an assessment of economic conditions.

When the CAC asks WSDOT to develop toll rate scenarios, CDM Smith will use "toll sensitivity curves" for each type of travel to adjust the traffic levels that will still use TNB once rates are increased to derive the projected revenues that would be received. ***In a change from previous years, at the request of the Commission, CDM Smith will also prepare two sensitivity tests – one showing the effect of zero growth in traffic, and one based on a more pessimistic economic outlook.*** These are intended to illustrate the risk to revenues if the economy does not grow as expected.

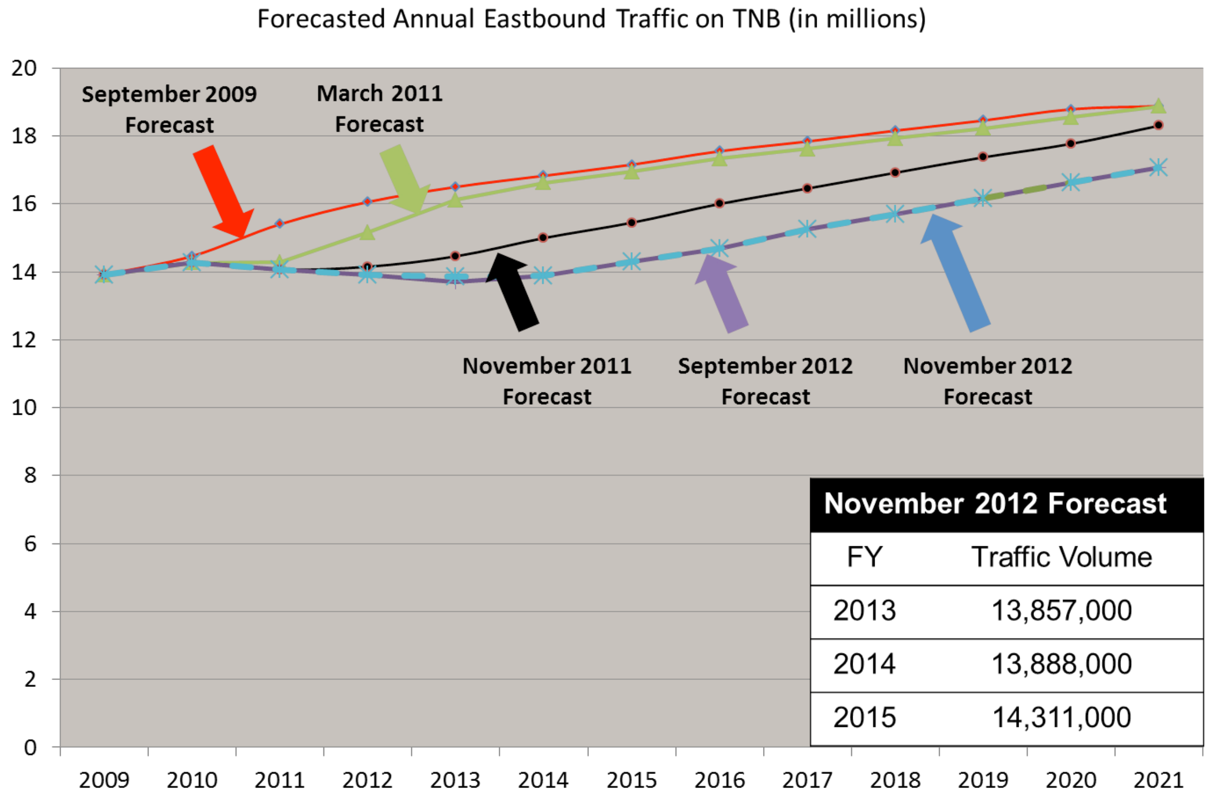
How has the economy affected traffic forecasts?

The original forecasts for TNB projected a drop in initial traffic due to the implementation of tolls, followed by increasing traffic due to a growing economy. It was known that business cycles would affect traffic growth year to year, but without fundamentally changing the long-term growth in traffic.

The recent economy has not followed expected trends. Most economic and revenue forecasts have projected a return to growth similar to other recent recessions, but growing evidence suggests recovery from financial crises may be slower.

Figure 6 shows recent traffic forecasts for TNB, which predicted a quick return to traffic growth. More recent forecasts have assumed a slower return to growth due to the economy and the toll rate increase.

Figure 6: Effect of Economy on Traffic Forecasts



November 2012 Forecast	
FY	Traffic Volume
2013	13,857,000
2014	13,888,000
2015	14,311,000

It's helpful to look at traffic growth over a longer period to see the effect tolling has had on traffic. **Figure 7** shows a steady growth in traffic up to the period when bridge construction began. There was an expected drop in traffic when tolling began (and a dramatic drop in congestion as a result of tolls and the new capacity). However it appears that actual traffic levels have been relatively flat since, in part due to current economic conditions. Economic models based on trends cannot predict with certainty whether and when traffic growth will return given the uncertainty of the current economy.

Figure 8 shows how a sample of WSDOT's previous quarterly forecast updates have compared with actual traffic volumes over time. The undulating pattern in the pink bars reflects seasonal patterns in bridge use. The June 2008 forecast (dashed black line) was a fairly close estimate to actual results. The June 2010 (dashed green line) was done when a traditional recovery from recession was expected, and like other state revenue estimates it was based on economic models that assumed a more rapid economic recovery than has followed. Each of the subsequent forecasts has assumed a more prolonged downturn and slower recovery to growth.

Figure 7: Traffic Volumes Since 1991

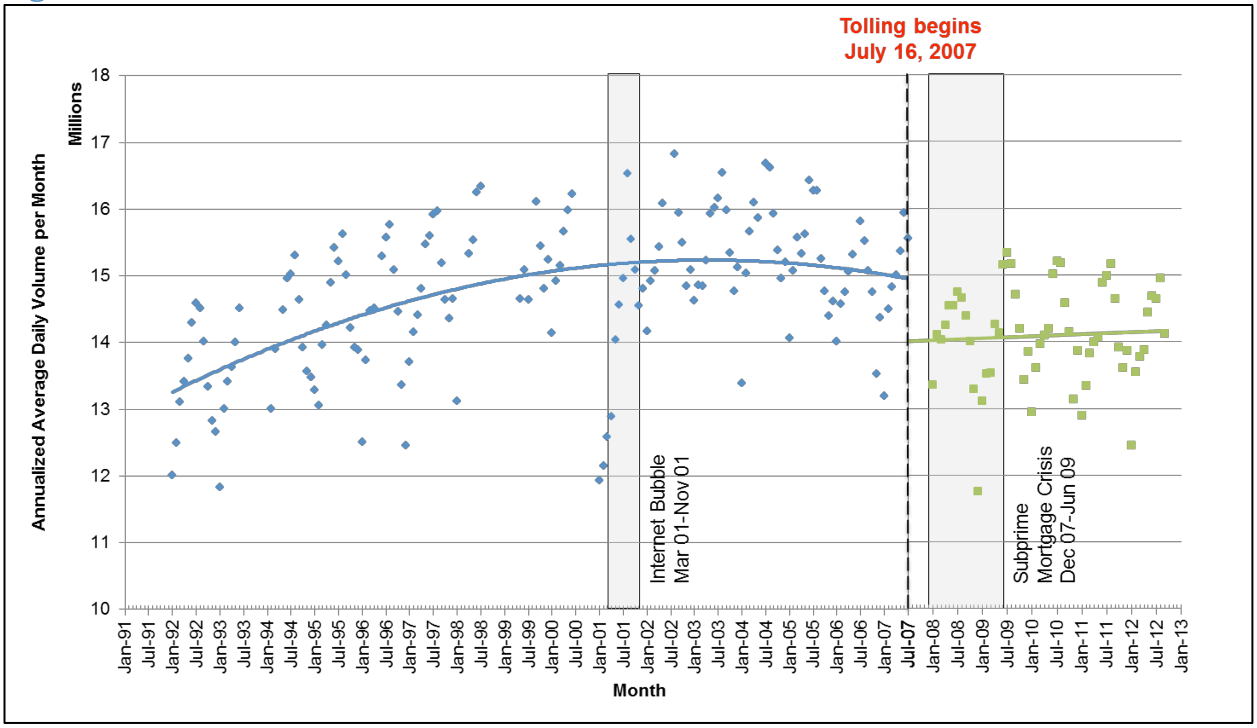
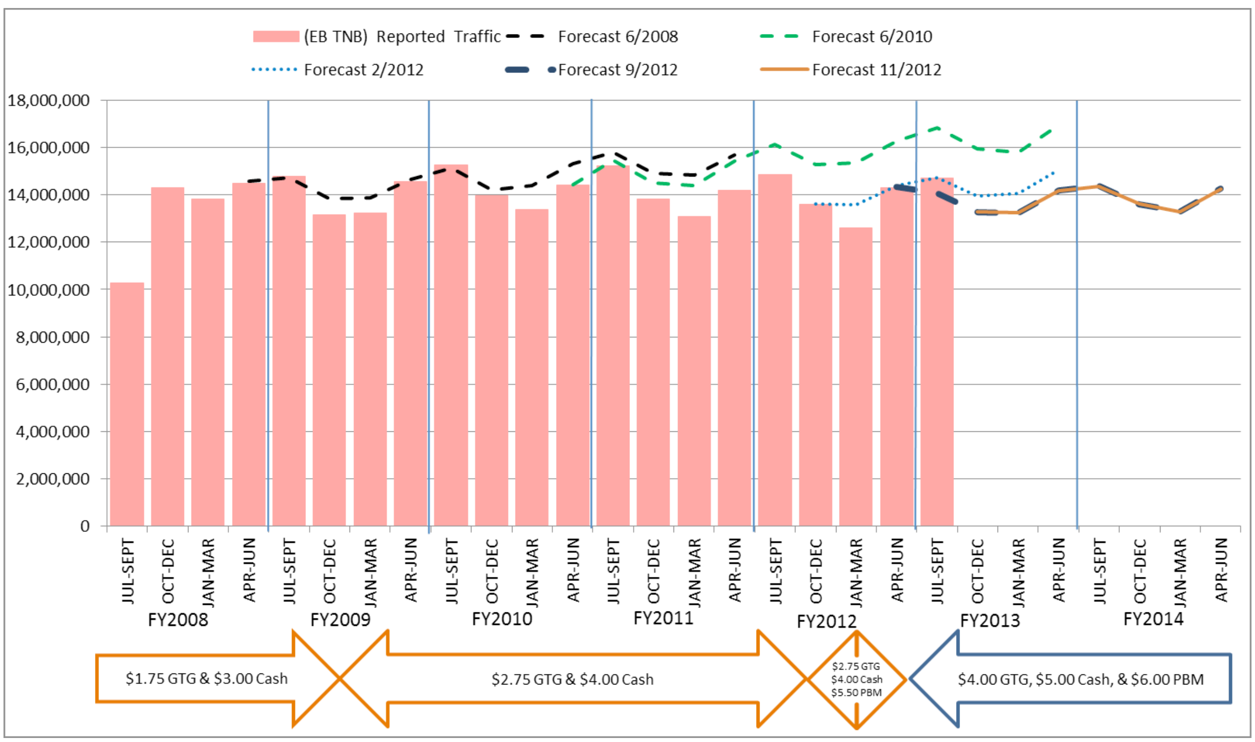


Figure 8: Annualized Quarterly Traffic Forecasts Compared with Actual Transaction Volumes



How do FY 2013 traffic volumes compare to February 2012 forecasts?

WSDOT produces a quarterly report that compares actual traffic and revenue against the forecast in order to monitor whether revenues are on track to meet targets (see **Figure 9**). Only the first quarter (July through September) is available. Second quarter data will be available as soon and as the year progresses the reported traffic will be updated. The first quarter traffic and revenue report shows traffic trending slightly above forecast. *This report has been changed from recent years to show two forecasted numbers: the traffic and revenue forecasted when rates were set (February 2012), and the most recent traffic and revenue forecast update.* This change will make it easier to track whether revenues are on track with what was projected at the point last year's rates were adopted.

Figure 9: FY 13 Quarter 1 Traffic and Revenue Report

TNB Projected and Reported Traffic and Revenue

Traffic and Revenue Statistics for Fiscal Year 2013 - *Quarter 1*

December 11, 2012

	Original Projected Traffic Forecast *	Revised Projected Traffic Forecast**	Reported Traffic		Original Variance	Revised Variance	Original Projected Toll Revenue***	Revised Projected Toll Revenue**	Reported Toll Revenue		Original Variance	Revised Variance
Jul-12	1,230,000	1,206,000	1,245,556	A	15,556	39,556	$ 5,366,000	$ 5,305,000	$ 5,382,613	B	$ 16,613	$ 77,613
Aug-12	1,220,000	1,205,000	1,271,313	A	51,313	66,313	$ 5,386,000	$ 5,377,000	$ 5,586,616	B	$ 200,616	$ 209,616
Sep-12	1,110,000	1,093,000	1,162,037	A	52,037	69,037	$ 4,892,000	$ 4,877,000	$ 5,037,892	B	$ 145,892	$ 160,892
Oct-12	1,170,000	1,147,000					$ 5,096,000	$ 5,112,000				
Nov-12	1,100,000	1,084,000					$ 4,822,000	$ 4,819,000				
Dec-12	1,100,000	1,090,000					$ 4,842,000	$ 4,835,000				
Jan-13	1,100,000	1,080,000					$ 4,842,000	$ 4,790,000				
Feb-13	1,060,000	1,036,000					$ 4,642,000	$ 4,591,000				
Mar-13	1,220,000	1,193,000					$ 5,336,000	$ 5,286,000				
Apr-13	1,160,000	1,139,000					$ 5,102,000	$ 5,047,000				
May-13	1,230,000	1,197,000					$ 5,386,000	$ 5,330,000				
Jun-13	1,250,000	1,211,000					$ 5,436,000	$ 5,380,000				
FY To Date	**3,560,000**	**3,504,000**	**3,678,906**		**118,906**	**174,906**	**$15,644,000**	**$15,559,000**	**$16,007,122**		**$ 363,122**	**$ 448,122**
FY Totals	**13,950,000**	**13,681,000**	**3,678,906**		**118,906**	**174,906**	**$61,148,000**	**$60,749,000**	**$16,007,122**		**$ 363,122**	**$ 448,122**

Notes:

* The Original Projected Traffic Forecast was dated March 2012

** As the traffic and toll revenue forecasts are revised throughout the year, the revised forecasts will be included in the applicable column for comparison.

*** Original Projected Toll Revenue differs from Commission Alternative Scenario #2 due to rounding.

A = Reported Traffic - While we are not aware of any material discrepancies on traffic counts for SFY13, key ETCC reconciliations have not been completed. Final transaction counts will not be known until reconciliations are complete.

B = Toll Revenue - As of February 13, 2011, WSDOT transitioned tolling customer service center operations to a new vendor - Electronic Transaction Consultants Corporation (ETCC). With this transition, the new ETCC system encountered problems in the accuracy and timeliness of recording revenue and other accounting transactions. WSDOT and ETCC have investigated and corrected accounting records for known discrepancies. While we are not aware of any *material* discrepancies in the accounting records, ETCC has not completed key reconciliations which ensure timely and accurate processing of financial transactions. Upon completion of these reconciliations, any discrepancies identified will be addressed and necessary correcting adjustments made.

Forecast Details:

FY 2013 monthly" Revised Projected Traffic" and "Revised Projected Toll Revnue" for July, FY 2013 are based on the June FY 2012 forecast, adjusted for estimated revenue leakage resulting from unreadable license plates and/or unidentifiable vehicle owners.

FY 2013 monthly" Revised Projected Traffic" and "Revised Projected Toll Revenue" for August and September, FY2013 are based on the September FY 2013 forecast, adjusted for estimated revenue leakage resulting from unreadable license plates and/or unidentifiable vehicle owners.

FY 2013 monthly" Revised Projected Traffic" for October FY 2013 through June FY 2013, is based on the November FY 2013 forecast, adjusted for estimated revenue leakage resulting from unreadable license plates and/or unidentifiable vehicle owners.

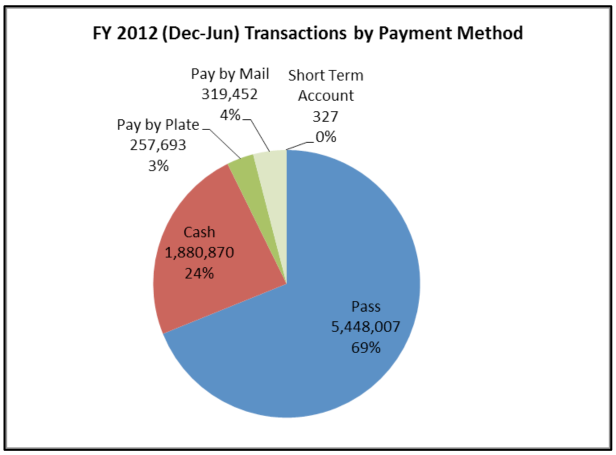
What is the effect on revenue of different payment methods?

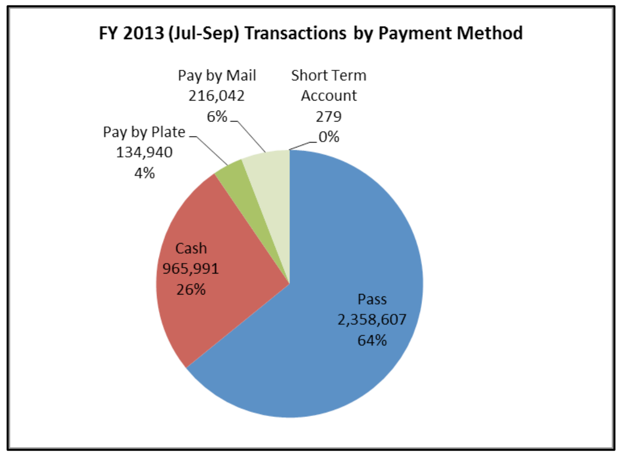
- Tolls are collected using cash toll booths, electronically using pre-paid *Good To Go!* accounts, or by mail. Each of these toll payment methods has a different toll rate reflecting the fact that toll collection costs differs among them. The portion of customers that use each payment method is shown in **Figure 10.**
- *Good To Go!* pre-paid accounts have the lowest toll collection cost and the lowest toll rates because the customer can be easily identified and the tolls can be charged to

accounts with funds on hand. The current *Good To Go!* pass rate is $4.00. *Good to Go!* Customers without a transponder, or Pay By Plate customers, pay a $0.25 fee per transactions.

- Cash collections at toll booths cost more to collect because toll collectors are needed to collect the tolls. The current cash toll rate is $5.00.
- Pay By Mail is the most expensive collection option. Collection cost includes invoicing and mailing, as well as bill processing. With Pay By Mail there will also be uncollected tolls when license plates can't be read correctly, addresses are wrong or unavailable, and when customers don't pay their bills. The current Pay By Mail toll rate is $6.00. Short Term Account customers who contact the customer service center to pay the toll within 3 days of the transaction receive a $0.50 discount per transaction.

Figure 10: 2012 and 2013 Distribution of Transactions by Payment Method



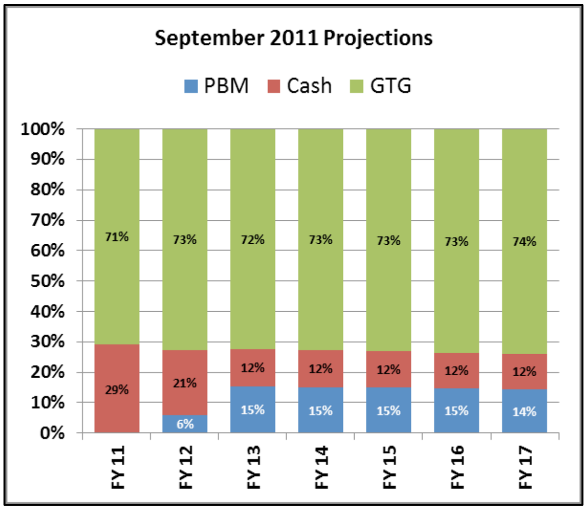


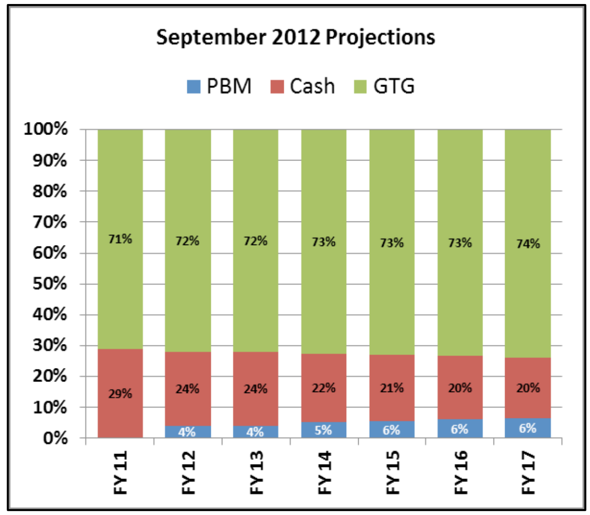
What assumptions are used about the use of each payment method?

Before Pay By Mail tolling began, WSDOT assumed that about 50% of toll booth customers would switch to using Pay By Mail based on the experience of other toll operators. Surveys of toll booth customers suggested that the estimate of those likely to switch to Pay By Mail was probably high, but some CAC members were also concerned that an even higher portion of customers would use Pay By Mail, risking higher toll collection costs and losses.

Fortunately, the number of Pay By Mail users is less than projected, so current revenue forecasts have been adjusted to be consistent with current use patterns. **Figure 11** shows the change in payment type use assumptions from September 2011 to September 2012. GTG stands for *Good To Go!* pre-paid account customers, and PBM stands for Pay By Mail customers.

Figure 11: 2011 and 2012 Projections of Payment Method Use





What portion of Pay By Mail transactions are being paid?

Until the end of 2011, drivers without a *Good To Go!* account who passed through the electronic toll lanes were issued a Notice of Infraction by mail. Beginning December 2, 2011, those drivers now receive a toll bill instead, and have 80 days to pay before a **notice of civil penalty** (NOCP) is issued through the mail. Drivers have the opportunity to challenge an NOCP through an adjudication process. If tolls remain unpaid, they will be sent to collections and vehicle registration renewals may be refused until tolls and civil penalties are paid in full.

Figure 12 shows the results since the introduction of photo-tolling on TNB. A full two years will be needed to know fully how many transactions remain unpaid. WSDOT recently began sending holds on vehicle license renewals to the Department of Licensing and collection efforts are expected to begin in mid-2013.

The table in **Figure 12** shows:

- The portion of Pay By Mail transactions that were paid within 80 days
- The portion paid by signing up for a *Good To Go!* account
- The portion paid when paying civil penalties (after 80 days)
- The portion paid in total (sum of first three columns)
- The portion dismissed or rejected, and
- The remaining portion that has not yet been processed or is awaiting payment.

As expected, a greater portion of transactions is collected as more time has elapsed. When registration holds and collections are in force, a greater portion of transactions will be paid.

Figure 12: Status of Pay By Mail Transactions Generated Each Month

	Paid Toll Bills	Converted to *Good To Go!*	Paid with Civil penalties	TOTAL PAID	Dismissed or Rejected	Open/In Process
Dec-11	23.36%	40.95%	2.71%	67.02%	4.27%	28.70%
Jan-12	21.09%	42.84%	2.18%	66.11%	4.02%	29.87%
Feb-12	22.49%	38.59%	1.93%	63.01%	4.36%	32.63%
Mar-12	23.10%	33.11%	2.37%	58.58%	3.39%	38.03%
Apr-12	24.24%	31.83%	1.75%	57.82%	3.31%	38.87%
May-12	25.90%	32.02%	1.09%	59.01%	1.79%	39.20%
Jun-12	28.25%	24.97%	0.29%	53.51%	1.09%	45.40%
Jul-12	31.40%	21.84%	0.01%	53.25%	0.89%	45.85%
Aug-12	29.09%	18.36%	0.00%	47.45%	0.52%	52.03%
Sep-12	19.16%	12.81%	0.00%	31.97%	0.38%	67.64%

Accounts Receivable and Allowance for Doubtful Accounts

The concept of accounts receivable (AR) is recognizing revenue before actual cash is collected – a standard accounting practice in a business model where billing is involved. In the case of TNB, toll revenue is booked when the first Pay By Mail bill is sent. There are several factors that come into play that affect the ability to collect all booked AR toll revenue including, but not limited to, technologies used, payment collection methods, customer willingness to pay, and enforcement. The recognized percentage of billed tolls that will not be collected is described as the Allowance for Doubtful Accounts. In accounting reports this percentage is applied to billed tolls before recognizing potential revenue.

There are many industries that have standard rates for doubtful accounts to better forecast how billings will convert to actual cash but it is a challenge to predict in the realm of electronic toll collection. Toll collection is a geographically localized operation and is dependent on a very distinct demographic. The only real way to establish an accurate Allowance for Doubt Accounts in through collected data and experience. Without enough history of the Pay By Mail program in the local area we must make assumptions to recognize PBM revenue until better information is available. At the end of the 2012 calendar year, we will have the ability to establish a rate for Allowance for Doubtful Accounts based on actual performance. For consistency, this rate will be used for both actual and projected revenue.

How are transponder sales revenue calculated?

Transponders are sold for use on all Washington toll facilities, so the costs and revenues attributable to transponders are divided among facilities in proportion to the number of transponder transactions on each facility. Transponder revenues simply cover the cost of providing them to customers. Generally revenues for transponder sales should be similar to the cost to purchase them, since WSDOT sells transponders at cost with only a small markup to cover packaging, distribution and a small profit for third-party retailers.

What are the assumptions for civil penalty gross revenue and transfers to other accounts?

In the TNB Financial Plan, civil penalty revenues are calculated based on the anticipated payment rate of those Pay By Mail transactions which are unresolved after 80 days. For example in FY 14, TNB expects to issue 571,000 toll bill transactions. Based on current resolution rates, this would leave approximately 75,000 transactions eligible to receive a **notice of civil penalty** (NOCP). NOCP payment rates for FY 14 have been estimated to be between 20 – 25%.

Based on $40 per civil penalty transaction paid, TNB's civil penalty revenues are estimated at $708k for FY 14. It is important to note that the civil penalty revenues presented on the TNB financial statements is higher than what is estimated in the Financial Plan. The financial statements represent the total civil penalty receivable for those NOCP transactions which have become eligible through liability found during an administrative hearing or failure of the recipient to respond to the notice of civil penalty. The civil penalty amounts presented in the financial statements do not represent cash received, but a right to collect. WSDOT will continue to monitor actual receivables and adjust projected revenue as needed.

"Transfers from/to other accounts" shows transfers to the motor vehicle account (MVA). By statute, civil penalty revenues must be applied to repay a $5.288M loan from the gas tax-funded MVA used to provide construction funding in the period prior to the commencement of tolling. By budget proviso, in 2013 costs of the adjudication program are paid for with NOCP revenues and only the remainder is transferred.

What portion of NOCP's is being paid?

Figure 13 shows the number of NOCP's issued, paid and hearings held each month during the 4th quarter of FY 12 and 1st quarter of FY 13and their disposition. It's important to note that the collection process has not yet begun, and the first registration holds started in September. While the initial response rate is low, it will take a full two years to know what portion of NOCP's will be collected.

Figure 13: Civil Penalty Program Results for Tacoma Narrows Bridge

	FY 12 Q4	FY 13 Q1
Number of civil penalty transactions issued[1]	21,142	21,005
Number of civil penalty transactions paid upon receipt of the NOCP	1,171	890
Number of civil penalty transactions adjudicated via a written dispute in lieu of hearing	476	862
Number of civil penalty transactions adjudicated via an in-person hearing	1,144	841
Number of civil penalty transactions which did not receive a response	18,351	18,412
Workload costs related to adjudicated transactions[2]	$98,000	$106,800
Cost and effectiveness of debt Collection activities[3]	N/A	N/A
Cash received related to $40 civil penalty fee[4,5]	$46,400	$91,640

[1] Civil Penalty Transaction data is queried from the ETCC database. The data is pulled at least 23 days after the NOCP transaction date in order to allow each recipient time to pay or request a hearing prior to the NOCP due date.

[2] Workload costs represent the total costs charged in relation to the civil penalty program during this reporting period.

[3] Debt Collection activities are anticipated to begin in two phases; DOL Hold (Sept 2012) and Collections (Mar 2013)

[4] Revenues reported here represent cash received from NOCP penalty payments only. They do not include any toll or reprocessing fee cash collected. Amounts are rounded to the nearest whole $40 increment.

[5] Financial statements report total revenues earned after NOCP recipient has been found “liable” through an administrative hearing or deemed “liable” for not responding to the notice by the due date (20 days).

What are fee revenues, and how are they projected?

Fees are charged for a variety of reasons, including:

- A 25-cent fee is charged for *Good To Go!* transactions without transponders
- A $5 fee is charged if a second bill is needed to collect Pay By Mail transactions
- A 50-cent per page fee (with a minimum of $1.50) is charged for paper statements or reprinting
- A $5 fee is charged for inactive accounts

Fee revenues are forecasted by projecting recent receipts forward. Fee revenues have been below what was expected, and so projections for fee revenues are lower than were shown in the previous financial plan.

What is included in contractual damages?

WSDOT and the Electronic Transaction Consultants Corporation (ETCC) entered into a Settlement Agreement to settle claims associated with a delay in the start of establishing and operating a Statewide Tolling System for Washington State, and the commencement of tolling of State Route 520. These claims impacted the Tacoma Narrows Bridge. The agreement modifies the original December 22, 2009, contract between the two parties along with its subsequent change orders. It was executed June 30, 2012.

The total settlement value attributable for all toll facilities was $6.4 million in system software license ($4.0M) and operational payment reductions ($2.4M over the next 6 years). TNB’s share of the software ($1.346M) was recognized in FY 12 as an expense offset by revenue. The TNB share of the operational payment reductions is $1.4M. The software acquisition and reductions will be shown as Contractual Damages Revenue in the Financial Plan.

TNB's share of the operational reductions is made up of:

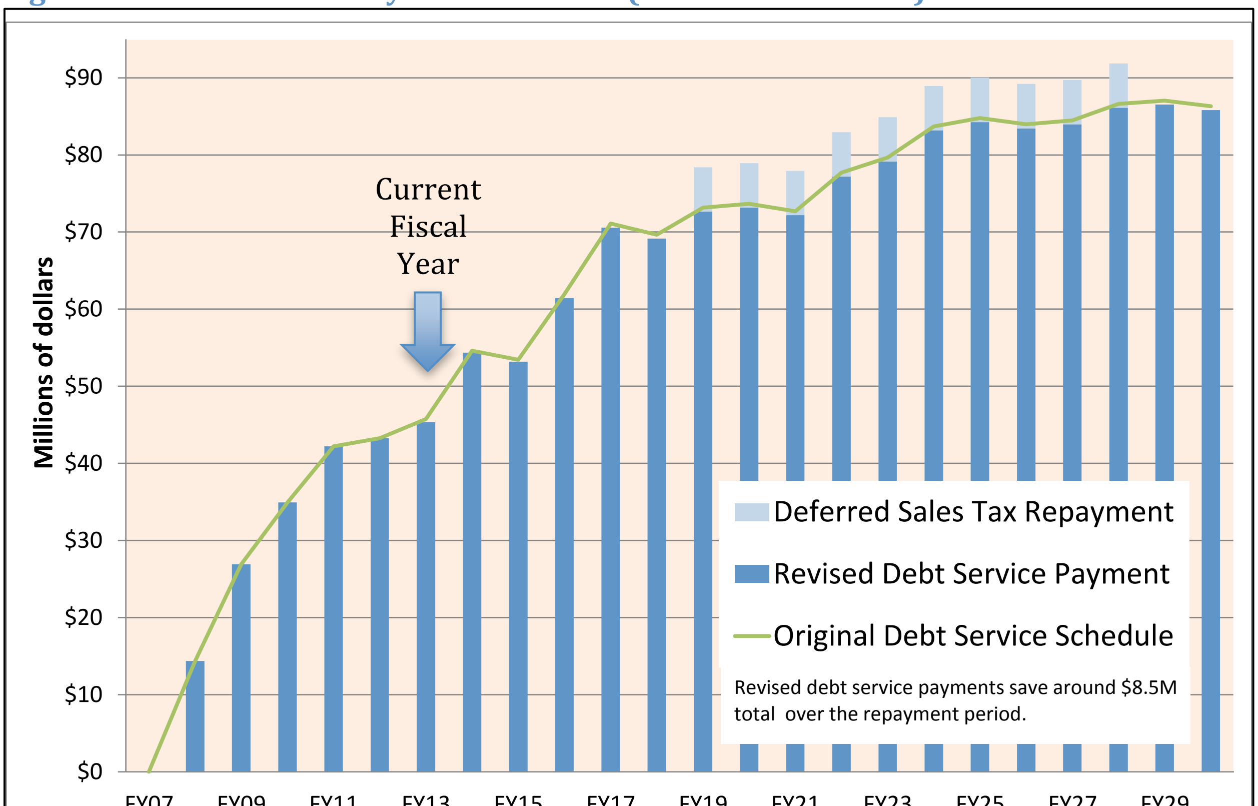
- $26,700 Rent Reimbursement: TNB's share of $84,680 paid for the rent of space planned for adjudication activities. The adjudication program was delayed and this cost is being covered by ETCC.
- $920,167 Toll Revenue Reimbursement: Toll transaction and NOI revenue owed to TNB by ETCC.
- $297,133 Additional Reimbursement: TNB's share of ETCC invoice reductions through the life of the CSC contract.

Debt Service Payments (shown as a reduction to revenue)

Why are debt service payments increasing?

In 1992 a financing plan was adopted to construct the new Tacoma Narrows Bridge using a series of bond sales. The debt service payment schedule ramps up steeply over time, and tolls were also assumed to increase every three years in $1 increments to cover increased debt service costs, up to a maximum of $6.00. This is why debt service costs in 2014 will be approximately $9M higher than in 2013.

Figure 14: Debt Service Payment Schedule (as Revised in 2012)



2002 plan toll rate		$3.00		$4.00		$5.00	$6.00
Actual toll rate	*Good to Go!*	$1.75		$2.75	$2.75	$4.00	
	Cash	$3.00		$4.00	$4.00	$5.00	
	Pay By Mail	(N/A)		(N/A)	$5.50	$6.00	

What's changed for debt service?

Refunding (refinancing) of bonds are administered by OST within the policies of the State Finance Committee. In September 2012, the State Finance Committee, acting by and through the State Treasurer refunded one of the two refundable bonds for the Tacoma Narrows Bridge. Specifically, OST "refunded" one of the bonds issued to pay for bridge construction (2006C, bond sale #7). The savings were $413,088, $254,519, $254,419, $507,768, for fiscal years 2013 through 2016, respectively, with total savings of $8,555,150 over the life of the bonds (or $5,815,311 in current dollars).

The previous repayment schedule is shown as a green line in **Figure 14**, and the current repayment schedule is shown as blue bars. The chart also shows a series of ten payments for deferred construction sales taxes that were further deferred by the 2012 Legislature for six years.

What is Debt Service Withholding and how has this amount changed from previous years?

WSDOT is responsible for managing debt service payments for the Tacoma Narrows Bridge bonds. Debt service is paid from fuel tax revenues from the Motor Vehicle account. The Tacoma Narrows Bridge account then reimburses the Motor Vehicle account with the equivalent amount of toll revenue.

Funds are set aside each month for all transportation debt including the Tacoma Narrows bridge to ensure that sufficient funds are available for payments of principal and interest when due. Tacoma Narrows Bridge debt service payments are made four times a year, July 1, December 1, February 1, and June 1. Withholding amounts for the Tacoma Narrows Bridge are determined by a simple formula. The formula looks ahead each month at the next five month total and divides by five for the required monthly withholding amount. This methodology assures that there are adequate funds available to pay debt service without accumulating excessive balances in the debt service account. Interest earned on the funds set aside or withheld is applied to the debt service payments.

Because transfers occur from the TNB account to the debt service account occur in advance of debt service payments, some transfers occur in a different fiscal year than the actual debt service payment. On last year's financial plan, a proposed change in withholding from a five month period to six would have caused major shifts between fiscal years due to large payments scheduled for December each year. To show the effect of that (at-the-time) proposed new policy, the actual debt service was shown on one line, and an adjustment for any debt service transfers occurring in a different year from the actual payments was shown on a separate line called Debt Service Withholding.

However, the Transportation Commission staff, WSDOT and the Treasurer's office came to an agreement to forego the change to the withdrawal method, so this year the withholding adjustments are significantly smaller. For the current financial plan, these two lines have been re-combined to reflect the amount that will be moved from the TNB account within the fiscal year.

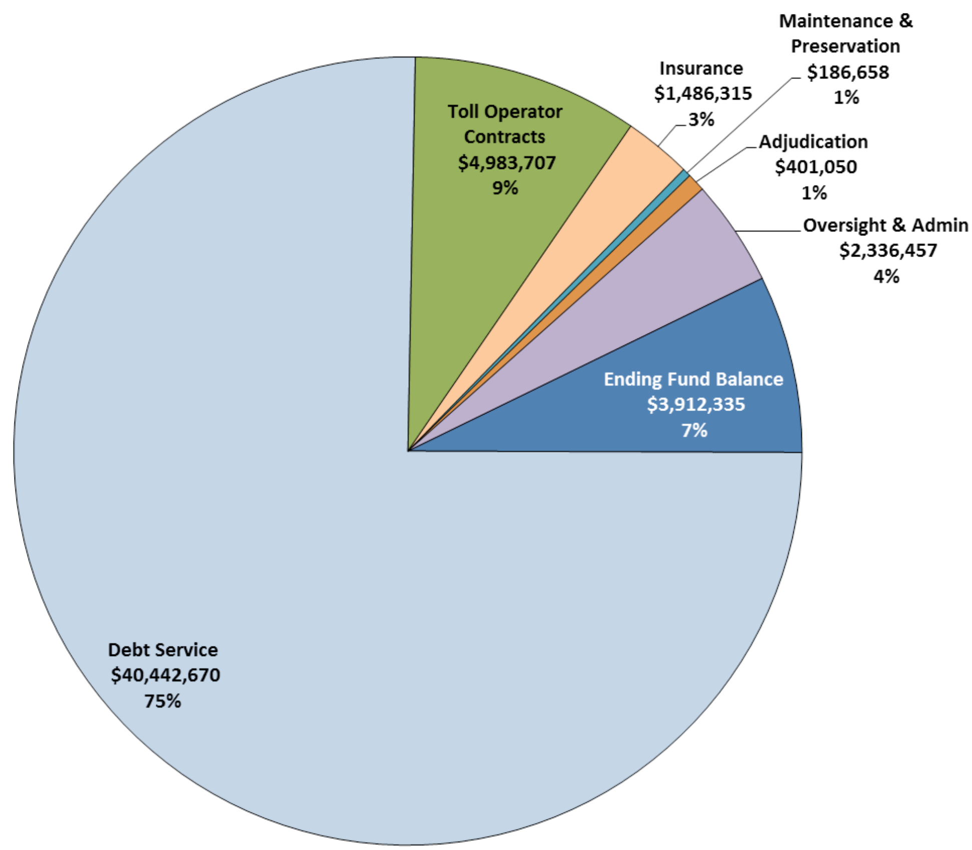
Uses of funds

Toll-funded expenses from the TNB fund include those required to operate, maintain, repair and restore the new bridge, purchase insurance in case toll revenue is interrupted, and operate and maintain toll collection activities.

WSDOT costs for toll collection include salaries and benefits, consultant services, credit card and bank fees, purchase of transponders for resale, and overhead such as rent, utilities and mailing expenses. WSDOT contracts with two toll vendors to collect tolls – one to operate the toll booths and electronic lane system at the bridge, and another to provide a statewide customer service center and back-office systems for account management. The cost of statewide toll collection costs are distributed to toll facilities using a formula negotiated with the **Office of Financial Management** (OFM).

Figure 15 provides an overview of how actual expenses were distributed in FY 12.

Figure 15: Tacoma Narrows Bridge – Breakdown of Uses of Funds for FY 12



$1,332,000 expense for software acquisition which was offset by revenue is not shown.
Actuals from Datamart (Nov 2012) for Fund 511, FY 2012

How are statewide toll collection costs allocated between toll facilities?

There are currently three WSDOT Toll facilities – Tacoma Narrows Bridge, SR 167 HOT Lanes, and the 520 Floating Bridge. There are a number of expenditures and revenues related to tolling that affect all of these facilities. All costs that apply to the statewide toll collection program (such as transponders, back office vendors, adjudication program and WSDOT oversight expenses) are allocated to individual toll facilities based on formulas negotiated between WSDOT, legislative staff and the OFM. The formulas are intended to tie each cost category to factors that affect their cost, such as the share of total transactions.

While there are several allocation formulas, these are some of the most important to understand:

- Statewide **customer service center** (CSC) costs are allocated proportionately by transaction count , minus cash booth transactions (since cash transactions are not processed through the CSC).
- Credit card and bank fees are allocated proportionately to the revenues raised by each facility.
- Both cost of transponders and revenue from transponder sales are allocated based on the proportion of transponder-generated transactions at each facility.
- Costs (but not revenues) of the adjudication program are allocated proportionately to the number of NOCP's issued for transactions at each facility.

Many if not most of the changes in toll collection costs for 2014 have some basis in how the costs have been allocated between facilities, since initial estimates for SR 520 transactions used for cost estimating assumed a significantly higher estimate of daily traffic than actuals. Through March 2012, costs were allocated using SR 520 planned traffic levels, holding TNB harmless. Starting in April 2012 and beyond, the distribution of statewide costs are allocated based on actual data, in some cases resulting in higher TNB allocated costs.

What accounts for changes in WSDOT Toll Collection costs?

As shown in **Figure 16**, toll collection costs have steadily decreased between FY 08 and FY 12. FY 11 and FY 12 costs were lower than expected due to vendor payments withheld and TNB was held harmless to cost increases during the transition period to the statewide CSC. Since April, 2012, allocations have been based on actual numbers instead of projections. Current forecasts account for the increased costs to TNB based on this allocation method.

It's important to know that budgeted amounts will normally be higher than actual amounts from past years. Budgets must be set to cover all anticipated costs, including some reasonable contingencies. WSDOT has generally kept costs lower than budgeted.

Figure 16: Tacoma Narrows Bridge – Cost of Toll Collection

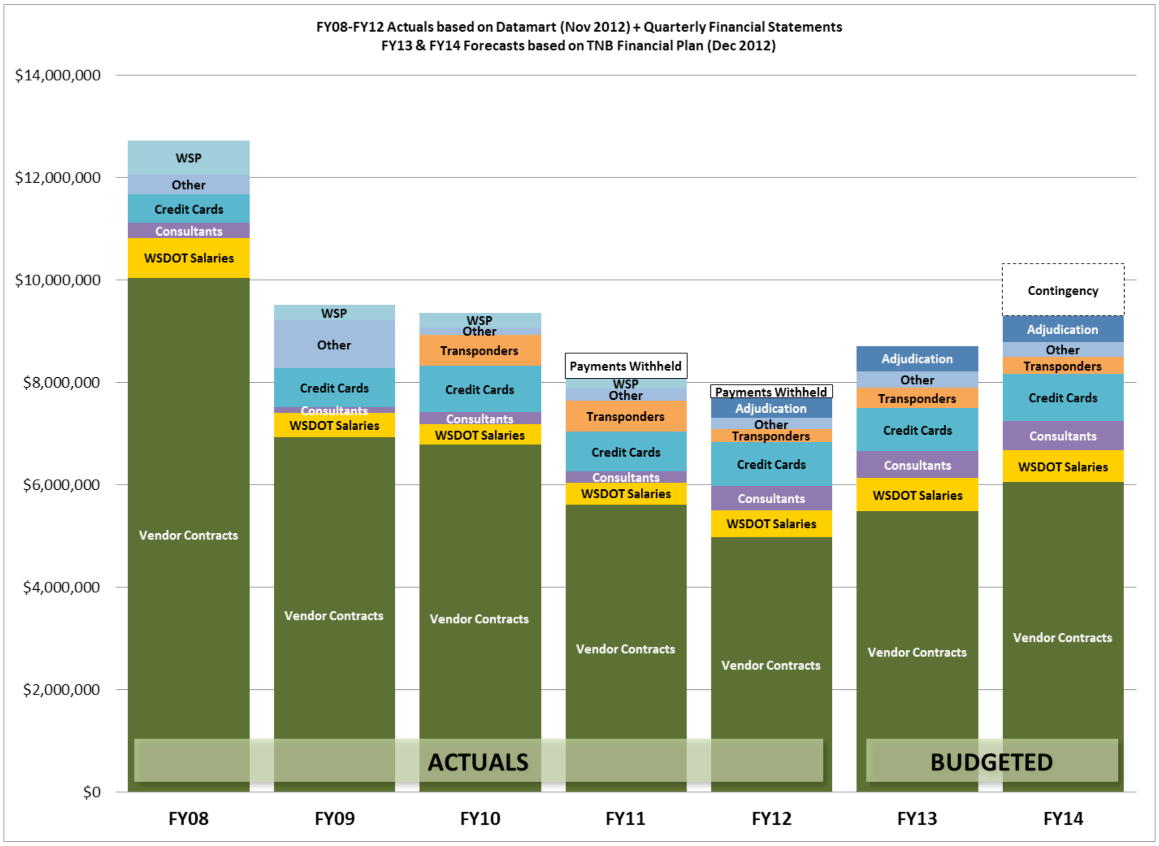


Figure 17: TNB Vendor Costs

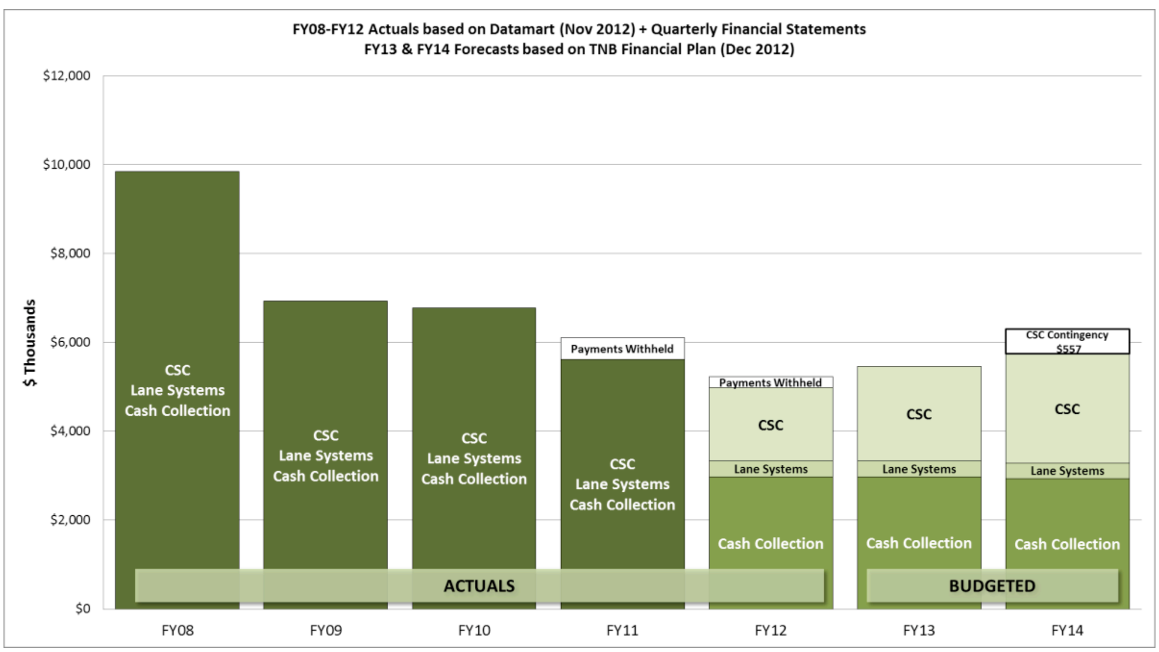
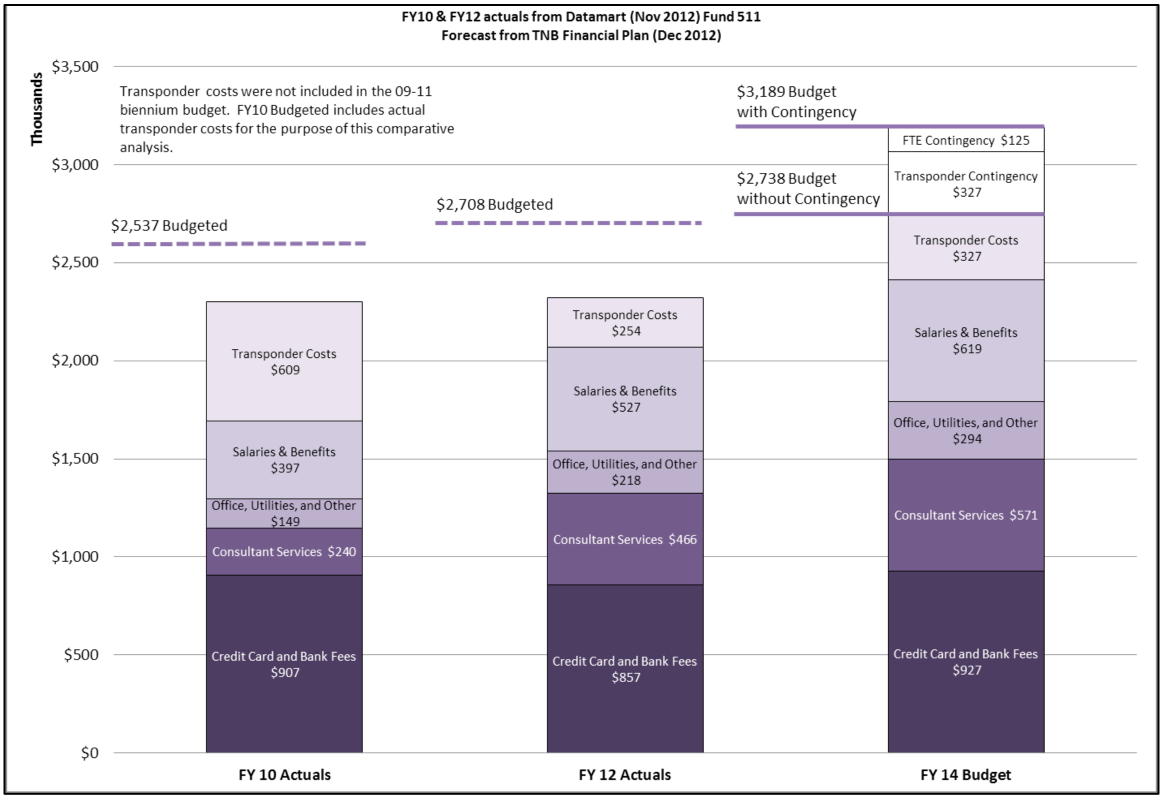


Figure 18: Breakdown of Oversight and Administration of Toll Operations Costs



The difference between budgeted and actual numbers can be seen in **Figure 18**, which shows budgeted and actual WSDOT Oversight & Admin costs for 2010 and 2012, and budgeted costs for 2014. The budgeted amount is shown with a solid line above the bar for each year's actual expenses.

Comparing FY 12 to FY 14, there are projected increases in WSDOT Oversight & Admin costs shown in two areas – salaries and benefits and consulting services. Bank fees would be expected to increase due to the higher toll rates, resulting in increased revenue.

- **Salaries and benefits:**

  The increase in WSDOT Oversight staff salaries and benefits when comparing FY 12 actuals to FY 14 budgets can be accounted for in three factors:

  - In FY 12, the late start of photo tolling on TNB resulted in lower than expected allocation of staff salary costs.
  - In 2014 the allocation percentage used for the TNB share of FY 14 budgeted staff salary costs is 40.6% compared to the 34% assumed for the FY 12 costs. The 40.6% allocation rate is reflective of TNB's relative share of transactions. The 34% rate was an estimate assuming a higher predicted transaction level for SR-520 Bridge than actual.
  - Many WSDOT staff positions were not filled during FY 12. For budgeting purposes, some of these open positions are assumed to be filled in 2014.

- **Consultant services:**

  There is an increased need in the current biennium and continuing in FY 14 for consultant services in three areas:

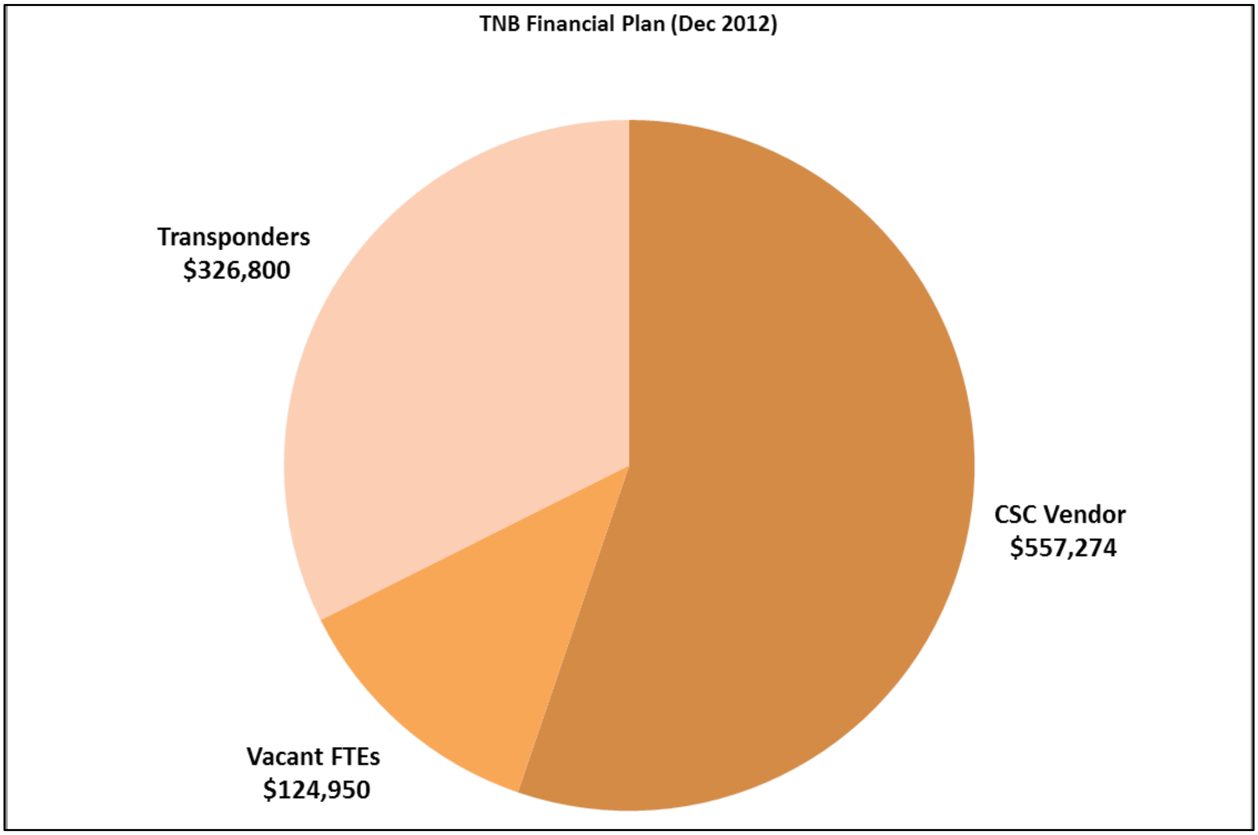
  - Additional traffic and revenue forecasting (more in line with actual 2013 costs)
  - Additional administrative and managerial support for CSC toll operations
  - Update of the cost of service benchmark study

  In support of toll operations, consulting services primarily support the CSC vendor. Specific items such as support for the upgrade to tolling systems, development of critical financial and operational reports, support for financial reconciliation, support for the operation of the adjudication program, and CSC vendor oversight were tasked during FY 12.

- **Contingencies:**

  - Many WSDOT staff positions were not filled during FY 12. For budgeting purposes, some of these open positions are assumed to be filled in 2014.
  - Transponder estimates are based on higher ramp-up sales and the offering of more transponder options.
  - ETCC's base contract costs are calculated using the highest tier of the variable portion of ETCC's payment schedule, which is related to the number of active customer accounts during a given payment period.
  - The toll operator budget proposal includes an allowance to cover any costs incurred by a sudden change in the CSC vendor.

Figure 19: TNB Contingency Breakdown (FY 14)



What is the cost per transaction for each of the payment types?

This information will be provided by the cost of service benchmark study currently underway.

Why are Adjudication Expenses changing?

The adjudication program started in April, 2012 with the first hearing held in May. The adjudication expense in FY 12 was $401k. WSDOT reduced the FY 13 adjudication budget by $390k because fewer hearings were requested than originally estimated. The adjudication budgets for future years were also reduced (by $425k in FY 14). WSDOT will monitor the number of NOCPs issued and scale the size of the program accordingly.

Why are Toll Operator Contract expenses increasing?

WSDOT has two toll operators for TNB. TransCore operates the cash toll booths and the electronic toll collection equipment located at the TNB toll point. Costs related to TransCore's contract are expected to remain flat year-over-year through FY 14. **Electronic Transactions Consultant Corporation** (ETCC) operates the statewide customer service center and back office.

ETCC costs are shared between toll facilities based on the proportion of non-cash transactions attributable to each. The increase seen in ETCC's contract costs when comparing FY 12 actual costs to FY 14 budgeted costs is related to three elements[1].

- In 2012, the TNB share of the CSC cost was based on an allocation that assumed a higher predicted transaction level for SR-520 Bridge than actual. Beginning in 2013, the allocation of costs is based on actual transaction levels, and the TNB share is higher than was used in 2012. Compared to 2010, toll vendor costs are reduced.
- ETCC's base contract costs are calculated using the highest tier of the variable portion of ETCC's payment schedule. The variable portion of ETCC's payment schedule is related to the number of active customer accounts during a given payment period.
- The toll operator budget proposal includes an allowance to cover any costs incurred by a sudden change in the CSC vendor.

The second two factors above are considered contingencies and together add $700k for TNB in 2014. These increases are partially offset by payment reductions due to WSDOT's settlement agreement with ETCC, which amounts is $400k for TNB in 2014.

Why is the insurance expense increasing?

We have forecasted the cost of insurance for the Tacoma Narrows Bridge to increase from $1.5M in FY 13 to $1.75M in FY 14 due to recent cost experience and feedback from providers. There are several large construction projects in the Puget Sound area planned or underway, and insurers perceive that insuring multiple large projects in the same geographic area increases risk for the insurer.

Why are maintenance expenses decreasing?

The TNB maintenance costs are from the Maintenance Plan provided by WSDOT Olympic Region Maintenance. Revisions to this plan occur regularly.

[1] The vendor cost estimate was submitted by WSDOT to OFM earlier this year, and is under review.

Beyond 2015

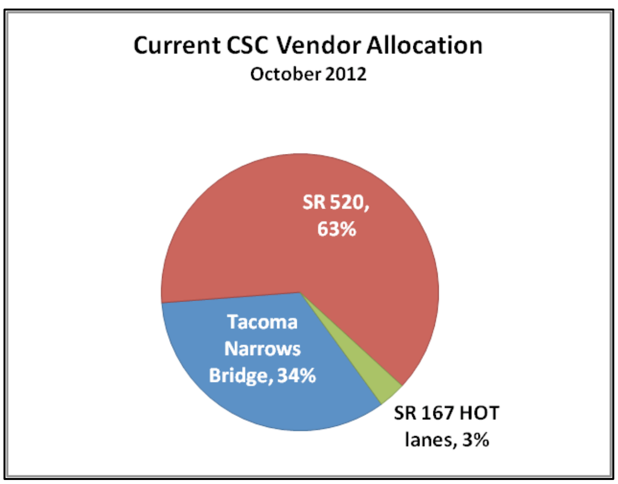
What changes could affect toll collection costs in the future?

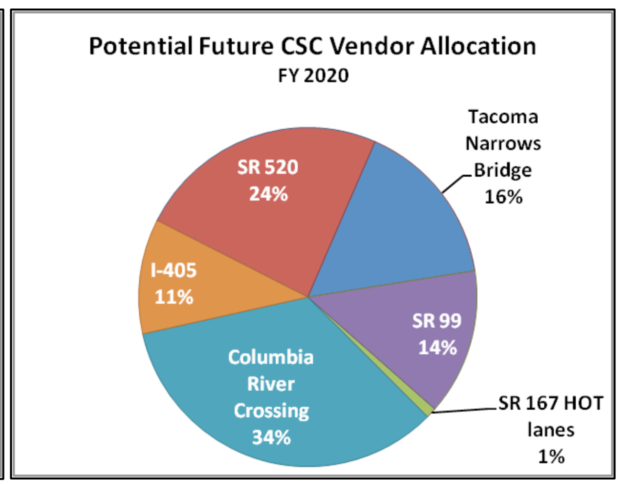
Many factors could affect toll collection costs in the future. Highest among them are:

- Changes in toll vendors. Current toll vendor contracts have limited duration and must be re-procured every several years. Contractors may also be changed due to non-performance. Financial analyses for potential future toll projects takes a conservative approach and assumes new contract costs could be higher than the current contract costs.
- Changes in the number of toll facilities. Adding new toll facilities increases total program costs however as WSDOT brings on new facilities, TNB can expect to benefit from centralized toll operations based on economies of scale.

Below are two charts showing the CSC vendor cost allocations for October 2012 compared to the projected future allocations for FY 20, with the addition of three new toll facilities currently under consideration or development. The size of the pies is proportionate to the projected total CSC program cost (including the assumed higher cost of a new CSC vendor), however the portion and total amount allocated to the TNB would be smaller than today. Note that the CSC costs are more closely tied to transaction growth than toll oversight costs, which would show stronger scale economies than the CSC.

Figure 20: Possible 2020 CSC Vendor Cost and Distribution





APPENDIX – Answers to Questions posed at the November 13, 2012 Meeting

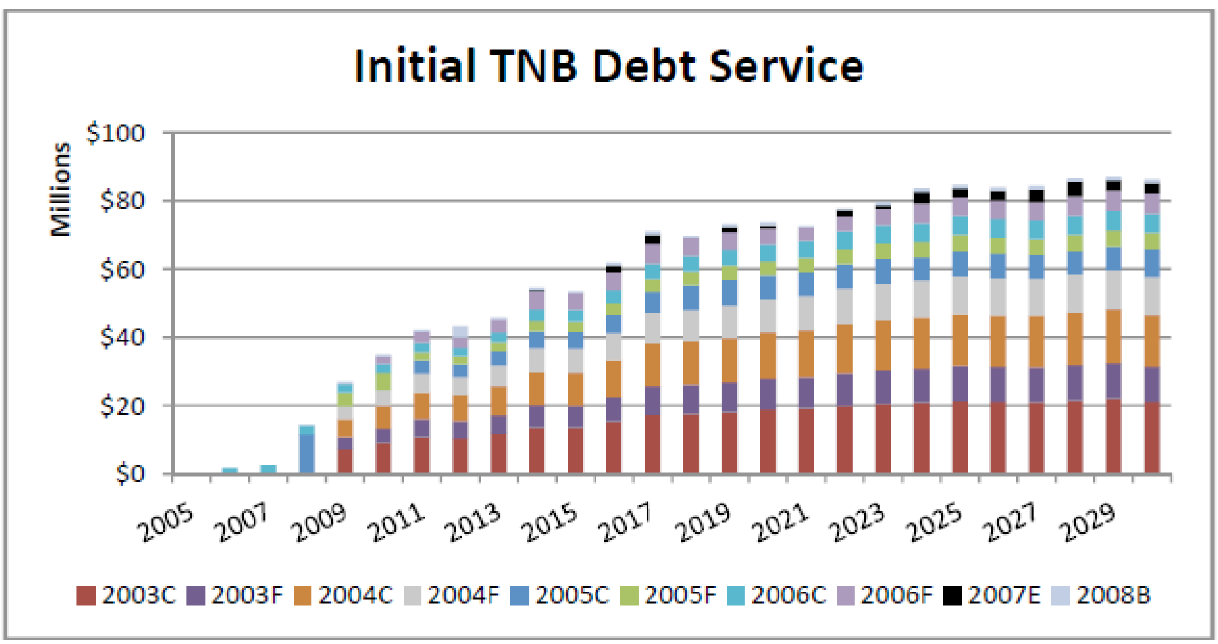
What is the structure of the bond financing, why is it "locked" in, and what options have been considered for the future?

This response was prepared by the Office of the State Treasurer:

<u>What is the structure of the bond financing?</u>

The state borrowed approximately $680M to finance the Tacoma Narrows Bridge in ten different series of bonds issued between September 2002 and September 2007. The majority of the bonds were issued as zero coupon bonds, which are non-callable. A zero coupon bond does not pay interest but instead accretes value and reaches its full face value at maturity. This type of bond was chosen, in part, because there was no early tolling available to help fund construction at the beginning of the project.

The chart below shows the initial debt service for the Tacoma Narrows Bridge by series and does not account for refundings. $4.2M was held in interest-earning escrow account from which the first four debt service payments (December 2005 through June 2007) were made. These debt service payments covered by interest are not shown in **Figure 1** and **Figure 14**.

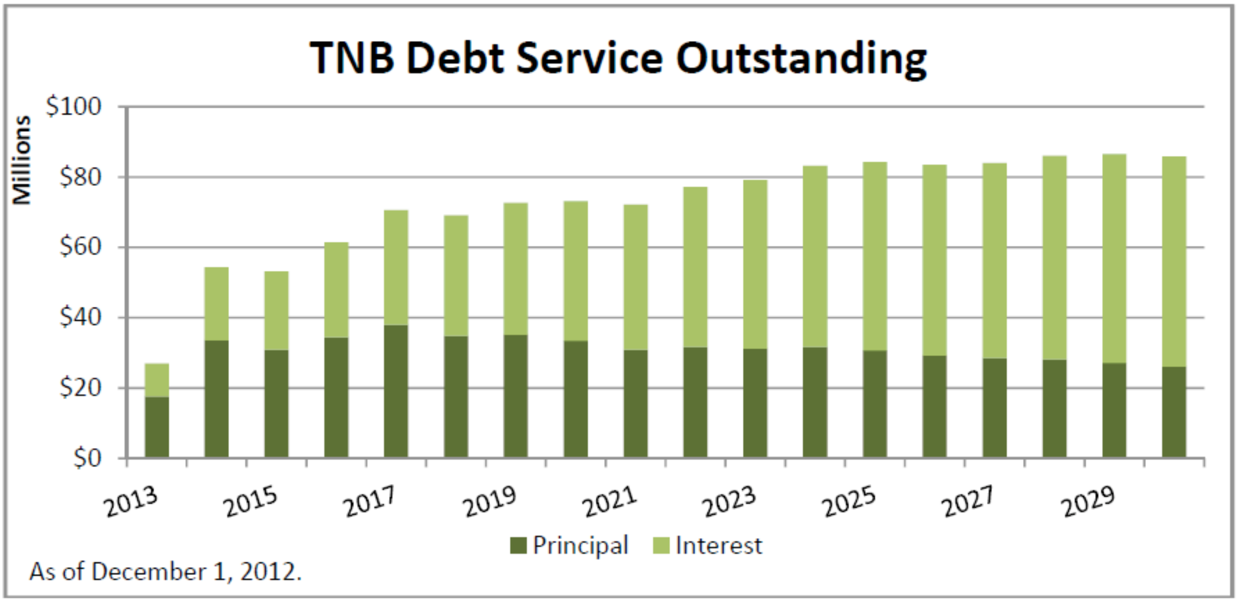


<u>Why is it "locked" in?</u>

Because the majority of the bonds were non-callable, zero coupon bonds, they cannot be refunded.

There are two series of TNB bonds that did include callable maturities: 2006C ($55M) and a portion of 2008B ($12M). The callable maturities of 2006C were refunded in September 2012, resulting in a net present value savings of $5,815,311.74. The callable of maturities of 2008B (which total only $7.9M) have not yet been refunded.

The chart below shows debt service outstanding as of December 1, 2012.



What options have been considered for the future?

The Office of the State Treasurer has reviewed alternative strategies to replace the existing bonds with bonds of longer maturities. These alternatives include a "tender" and a "defeasance". A tender involves issuing new tax-exempt debt and using proceeds of the new bonds to buy a portion of the outstanding bonds back from investors. The second alternative, a defeasance, consists of issuing new taxable debt and using the proceeds to buy a portfolio of U.S. Treasuries that produces income sufficient to cover the debt service on the outstanding TNB bonds. Analysis shows that any tender or defeasance options would be quite costly to the state in the current market as short-term interest rates are so low. Cost estimates range from $250M to $550M, or $38M to $137M on a net present value basis.

Moreover, neither one of these alternative strategies can be implemented under current law. Current statute states that any refunding bonds may not have final maturities that extend beyond the original bonds that they are refunding when the bonds to be refunded are voter approved general obligation bonds. Accordingly, the non-callable TNB bonds cannot be restructured under current statute (RCW 39.53.090).

How the end of the year balance is going to be handled?

This response was prepared by Accounting and Financial Services.

WSDOT accounts for tolling activities in accordance with Generally Accepted Accounting Principles, which requires use of the modified accrual method of accounting for revenue. As this is different than "cash basis accounting" we will recognize amounts as revenue which will not be collected as cash until a future period. Recognizing this, WSDOT monitors and manages cash balances to ensure we maintain a positive cash balance.

Can we annualize the average volume charts?

Yes, we've made that change in the revised TNB Rate Setting document for **Figure 8**.

Cost for contractor labor, why are we spending so much on contract labor?

This is explained in the TNB Rate Setting document in the bullet consultant services on page 25.

What are the true traffic counts? We are getting shown numbers that don't seem to line up with the revenue?

The July Traffic and Revenue table inaccurately reported revised Project Toll Revenue, which resulted in a negative variance. That error has been corrected. There can be a timing difference between when the transaction accounts are recognized in the toll collection system versus when the revenue is recognized in the accounting system. Transaction counts are captured on the date and month that the lane transaction occurs. However, revenue is recognized in the applicable open fiscal month in which the transaction reaches a disposition associated with revenue recognition. The timing difference is magnified every June and July since the system is designed to hold the June fiscal period open longer to accommodate a longer adjustment period for the fiscal year. As such, the revenue will be higher each June, and lower in July because of this extended adjustment period.

Cost of Collection?/What are the actual costs for pay by mail including mailing the $5 bill?

We have provided the cost of collection per transaction for *Good To Go!* and cash transactions, and plan to provide comparable information on Pay By Mail transactions in January.

What is the correct toll for someone who has an overdrawn or zero GTG account and receives a $6.00 Pay by Mail letter and who brings in the letter to the GTG office and wants his or her $6.00 toll reduced to $4.25 or $4.00 and justification for the answer.

The correct toll to be charged is $6.00. If the customer account had a zero or negative balance because the customer overdrew their bank account, then WSDOT would not approve a reduction.

But, if the person forgot to notify GTG of a change in bank account or credit card number and he had an account in good standing before this happened and the account was still in good standing and he had notified GTG of the changes, we would reduce the toll to the Pay

By Plate rate as a courtesy. This is still a new system for many people and we want to make people good customers not turn them away.

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